

Audit Program

General

An audit program is a system used to select and conduct audits. A property tax audit program provides an outline of the work to be performed, including practices and procedures to ensure that the audit objectives are achieved. More specifically, such a program should provide the county assessor with the tools to monitor audit work in progress, document completed audits, provide for the appropriate management review to ensure quality work, and ensure appropriate correspondence with taxpayers.

An audit program can be classified into five distinct phases:

1. Audit Selection
2. Audit Tracking
3. Conducting the Audit
4. Audit Report
5. Post Audit

Effective January 1, 2009, a county assessor is no longer required to audit all taxpayers with trade fixtures and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, an assessor is required to annually audit a "significant number of audits" as specified in [section 469](#).

[Section 469\(a\)](#) provides that the assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own assessable trade fixtures and business tangible personal property in the county. A "significant number of audits" means at least 75 percent of the fiscal year average of the total number of audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, inclusive, on those taxpayers in the county that had a full value of \$400,000 or more of locally assessable trade fixtures and business tangible personal property.

[Section 469\(b\)](#) provides that fifty percent of the required audits shall be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county. The remaining 50 percent of the required audits shall be selected in a manner that is fair and equitable to all taxpayers and may be based on evidence of underreporting as determined by the assessor.

[Rule 192](#) prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. [Letter To Assessors \(LTA\) No. 2009/049](#) provides a list of the minimum annual property tax audits required to be conducted by each county, which includes the significant number of audits and the number of audits required from the pool of largest assessments.

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provide the assessor with additional information to make fair and accurate assessments.

Scope of Review

The BOE's assessment practices survey team evaluates the assessor's practices and procedures for conducting audits.

The specific areas of review may include, but are not limited to, the following:

Audit Selection

- Who is responsible for determining the audit selection?
- How is the audit workload selected?
 - Audits selected from taxpayers in the pool of largest assessments?
 - Audits selected from the remaining pool of all other taxpayers?
 - Other audit selection considerations?
 - Audit of racehorse owners?
 - Waivered audits?
 - Exempt organization audits?
 - California Counties Cooperative Audit Services Exchange (CCCASE) audits?
- Does the assessor comply with [section 469](#), [Rule 192](#), and [LTA No. 2009/049](#) when determining the audit selection?
- How many significant number of audits is the assessor required to conduct each year?
- Of those required audits, how many are required to be from the pool of largest assessments?
- How many audits did the assessor complete in recent years of the following:
 - Largest assessments?
 - All other taxpayers?
 - CCCASE audits?

Audit Tracking

- Does the assessor have a tracking system in place in order to monitor audit workload and identify completed and pending audits?
- If so, who monitors this audit tracking schedule?
- If so, what information is provided and/or tracked on the assessor's audit tracking schedule?
 - Taxpayer name?
 - Account number?
 - Assessor's parcel number (APN)?
 - Assessed value (personal property, fixtures)?

- Last year audited?
 - Waiver requested (yes or no)?
 - Date assigned to auditor?
 - Date audit completed?
- If not, how does the assessor ensure that the required number of significant audits will be timely completed or, if an audit will not be timely completed, that a waiver of the statute of limitations has been properly obtained?

Conducting the Audit

- Does the assessor have written procedures in place for conducting audits?
- Who conducts the audits? Certified staff only?
- Does the audit include a review or verification of the following items:
 - Change in ownership or control?
 - Leased equipment?
 - Construction in progress?
 - Supplies?
 - Classification of equipment?
 - Proper trade level?
 - Invoices?
 - Field inspection?
 - Coordination with the real property division regarding improvements?
- Does the assessor audit for all years within the statute of limitations when an irregularity is found in the fiscal year first selected for audit?
- Does the assessor cite the proper code sections in documents affecting escapes, refunds, and applicable interest?
- How does the assessor handle offset audit differences across years of an audit?
- Does the assessor request a waiver of the statute of limitations from the taxpayer when it is determined that an audit will not be completed timely?
- Does the assessor audit the owners of racehorses in accordance with [Rule 1045](#) when appropriate?
- Does the same auditor-appraiser perform back-to-back audits of specific accounts?
- Does the same auditor-appraiser process business property statements (BPS) and subsequently audit the work they previously processed?

Audit Report

- Is the assessor's audit report comprehensive, complete, and well-documented?
- Do the audit workpapers consist of all documents necessary to support audit findings?
- Do the audit workpapers include the following:
 - Audit checklist?

- Planning documents, including list of documents reviewed prior to the audit appointment?
- Notes from initial interview and/or other interviews conducted during the audit?
- Information regarding operating and financial policies?
- Sampling method used?
- Invoices?
- Copies of the taxpayer's rendition used to report costs on property statements?
- Copies of the assessor's original appraisal?
- Cost and valuation schedules and other spreadsheets developed by the auditor to conduct the audit analysis?

Post Audit

- Do the assessor's procedures include a peer and/or supervisory review to be performed on each audit?
- If so, does the assessor follow these procedures? Are the review procedures sufficient?
- Does the assessor properly notify the taxpayer of the audit findings?
- If the audit results in an escape assessment or overassessment, does the assessor properly notify the taxpayer by sending a:
 - *Notice of Proposed Escape Assessment?*
 - *Notice of Enrollment of Escape Assessment?*
 - Notice of right to file a claim for cancellation or refund?
- Does the county have an ordinance to authorize the assessor not to issue an escape assessment that would result in an amount of taxes that is less than the cost of assessing and collecting the property tax?
- If so, does the assessor properly comply with the ordinance?
- How are taxpayers notified of their right to appeal the result of an audit, even in a situation where refunds offset escapes?